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CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE  
18 January 1955

TO: Deputy Director (Intelligence)  
SUBJECT: The Economic Situation in Turkey

1. Turkey's economic situation has deteriorated during the past several years, and a recent comprehensive study by American officials in Ankara indicates that the decline will continue unless direct remedial action is taken. The Menderes government appears determined to push its ambitious development program despite domestic inflation and foreign debt problems, apparently gambling on an increased flow of credit from Europe and on extensive economic assistance from the United States. American officials are, nevertheless, largely optimistic in terms of long-range prospects.

2. Despite outward signs of economic prosperity, the cost of living is rising. The state monopolies recently announced price increases averaging 20 percent on the majority of their products. Mounting foreign trade deficits and the critical shortage of foreign exchange are resulting in a decline in the value of Turkish currency on the exchange market. The sharp decrease in imports reflects the growing foreign exchange shortage and the gradual drying up of normal credit sources abroad. There is a continuing shortage of essential raw materials, construction materials, and spare parts. In spite of this situation, the proposed Turkish budget for fiscal year 1955 provides for a 44-percent increase in government expenditures. This includes an increased outlay for the importation of machinery, industrial equipment and raw materials. Total projected expenditures for 1955 are 30 percent higher than fiscal year 1954.

3. The economic stabilization program has failed primarily because the government has followed an inflationary policy in pushing its development program. Turkey's foreign commercial arrearages are estimated to exceed \$150,000,000--despite continuing efforts to attain settlements through bilateral trade agreements.

Department of Commerce review(s) completed.

State Dept. review completed

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4. The increasing reluctance of European countries to advance additional credits has turned Ankara toward bilateral and barter agreements. An expansion of trade with Soviet bloc countries, especially with the USSR, has resulted. Turkey has sought to link the settlement of its commercial debts to the acquisition of foreign investment credit. Foreign credit promises, tied directly to the settlement of commercial debts, have been estimated as high as \$400,000,000.

5. Turkey, with a steadily rising gross national product, has experienced the benefits of internal development, industrialization, and an expanding economy. The Menderes government is determined not to retrench this policy and looks with favor on any potential source of long-term loans. Menderes sought a \$500,000,000 loan from the American government last summer and is now renewing similar overtures.

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Rumors persist that the USSR may offer credits to Turkey which may be in gold or dollars instead of rubles.

6. Devaluation of the currency has been considered by some Western economists as the best approach to solving Turkish economic problems. Menderes, who may regard such action as politically impractical, in late December reasserted to a National Assembly committee that devaluation "will never be possible."

7. The relatively gloomy economic assessment of Turkey's economic future made recently by officials of the International Bank for Reconstruction and Development may have been in part a result of personality conflicts between representatives of the bank who visited Turkey and officials of the Turkish government. These representatives tended to view the Turkish situation in terms of strict economic and banking principles.

8. Responsible officials in the Departments of State and Commerce are mindful of Turkey's defense contribution and the importance of its leadership in the Middle East. They recognize that the problem is more political than economic. While acknowledging the inherent dangers in the current situation, they nevertheless tend to discount the present dilemma and to regard the long-term outlook with restrained optimism. A hopeful development is the current assembling of a joint American-Turkish "fact-finding and policy planning" staff, which will facilitate consultation, better co-ordination, and plan a course of action through 1960.

HUNTINGTON D. SHELDON  
Assistant Director,  
Current Intelligence

# TURKEY

## I. THE ECONOMIC SITUATION IN TURKEY

Price Index  
(1950=100 percent)

	Wholesale		Retail	
	1953	1954	1953	1954
Jan	110	119	106	115
Feb	111	123	105	116
Mar	110	121	105	114
Apr	111	121	106	120
May	111	122	107	121
June	109	121	108	122
July	106	122	108	119
Aug	106	-	109	-
Sept	108	-	109	-
Oct	109	-	109	-
Nov	112	-	109	-
Dec	115	-	110	-

\*Source: Organization for European Economic Cooperation, General Statistics, No. 6, November 1955, p. 140.

## II. CURRENCY EXCHANGE RATE (Official Selling Rate 2.825 Turkish Lira=1 US dollar)

Open Market Rate

1953			1954		
July	5.20	TL=1 US \$	Jan	5.58	
Aug	5.42		Feb	5.78	
Sept	5.70		Mar	5.97	
Oct	5.62		Apr	6.35	
Nov	5.62		May	6.08	
Dec	5.59		June	6.32	
			July	6.33	
			Aug	5.91	
			Sept	6.31	

\*International Monetary Fund, International Financial Statistics, December 1954, p. 158-159.

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III. CUMULATIVE DEFICIT POSITION WITHIN  
EUROPEAN PAYMENTS UNION  
(Figures represent millions of US dollars)

	1953	1954
Jan	-134.6	-167.2
Feb	-128.4	-172.8
Mar	-131.9	-184.5
Apr	-127.0	-206.3
May	-122.5	-216.0
June	-120.3	-215.7
July	-127.4	-224.5
Aug	-120.4	-225.3
Sept	-123.5	-228.2
Oct	-125.1	-
Nov	-145.7	-
Dec	-159.1	-

\*Source: Foreign Operations Administration, European Regional Data Book, 1954.

IV. FOREIGN TRADE-AVERAGE MONTHLY FIGURES  
(Value in millions of US dollars)

	Imports	Exports	Balance
1946	6.7	12.9	+6.2
1947	20.4	18.6	-1.8
1948	22.9	16.4	-6.5
1949	24.2	20.6	-3.6
1950	23.9	22.0	-1.9
1951	33.5	26.2	-7.3
1952	46.3	30.3	-16.0
1953	44.4	33.0	-11.4
1954 (Jan-Sept only)	40.1	24.6	-15.5

\*Source: Organization for European Co-operation, General Statistics, No. 6, November 1954.

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